



June 14, 2007

Mr. Winston Hickox  
Chairman  
AB 32 Market Advisory Committee  
California Air Resources Board  
1001 I Street, 15<sup>th</sup> Floor  
Sacramento, CA 95818

Dear Mr. Hickox:

The California League of Food Processors (CLFP) is a statewide trade association that represents fruit and vegetable processors with manufacturing operations in California. CLFP appreciates the considerable time and effort expended by the Market Advisory Committee to prepare its report regarding design criteria for a greenhouse gas emissions cap and trade program and would like to bring several issues to the attention of the Committee that may warrant further consideration.

Food Processing Industry Concerns

Most fruit and vegetable processors operate on a seasonal basis, conducting most of their production activities in a 3 – 5 month period. Due to varying weather, crop, and market conditions the length of the processing season, the total amount of commodities processed, and the energy required for operations can change significantly from year to year. For example, the size of the California processing tomato crop has varied by 10 – 20 percent in recent years. As a result, the amount of natural gas and electricity required can vary significantly from season to season and be quite difficult to predict in advance. This uncertainty will complicate determining whether or not a firm may need to purchase greenhouse gas emissions allotments.

The food processing sector is one of the largest consumers of natural gas in California. A substantial amount of energy is required to safely process and store food products and to thoroughly sanitize facilities. In many cases there are few options for substantially reducing energy consumption without compromising product quality. As a result, the costs associated with purchasing carbon emissions credits via auction will be a tax that will have to be passed on to food consumers. CLFP suggests that any cap and trade system be designed with enough flexibility to deal with the unique risks facing the food processing industry.

### CLFP Recommendations

CLFP is continuing to analyze how a cap and trade system might best be structured, but has the following comments regarding the Market Advisory Committee's report:

- CLFP supports the use of a cap and trade program to ensure that reductions in greenhouse gasses are obtained in the most cost effective manner.
- CLFP opposes the auctioning of a significant portion of the emissions allowances. The transition to a low carbon economy will be expensive and fraught with potential risks for businesses. The auctioning of emissions credits will add costs to firms that already have incurred substantial expenses to comply with criteria pollutant regulations. The extra costs associated with emissions auctions will essentially be an arbitrary tax that will directly affect the competitiveness of California businesses competing in the global marketplace.

Also, many analysts seem to assume that technology breakthroughs will result in major reductions in greenhouse gas emissions and help industry meet the 2020 target. However, the new technologies may be slow in coming, and some may not arrive at all. Firms should *not* have to purchase emissions allowances if science cannot keep pace with policy.

- CLFP opposes significant geographic and quantitative restrictions on the use of offsets. Climate change is a global issue and the best way to address the challenge is to provide a pathway for firms to achieve the greatest amount of reductions for the least possible cost. As long as the offsets are real, additional, verifiable, permanent, and enforceable there should be no significant restrictions.
- CLFP supports a "safety valve" provision that would result in the temporary issuance of additional allowances if the market price were to exceed a prescribed threshold. The California economy should be protected from the potential harm caused by a runaway carbon emissions market.
- CLFP supports both the banking of allowances and the issuance of a limited number of short-term credits.
- CLFP supports the issuance of emissions credits for early action.
- CLFP supports the inclusion of all major sectors, including transportation, in the cap and trade system from the onset of the program. This will ensure a more robust market and greater potential for emissions reductions.
- CLFP supports, where practical, the linkage of the California cap and trade system with similar systems in other states or nations to provide the opportunity to further lower the cost of reducing emissions.
- CLFP recommends the formation of a permanent advisory committee for the cap and trade program. The purpose of the advisory committee would be to review how the cap and trade program is functioning in terms of a market efficiency and fairness. The advisory committee would be comprised of a wide range of stakeholders and include economists with specific expertise in emissions markets.

CLFP looks forward to further deliberation by ARB about a potential cap and trade program and the opportunity to discuss issues of specific interest to the food processing industry.

If you have any questions about CLFP's views regarding this issue please contact me.

Sincerely,

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Director of Regulatory Affairs  
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